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5 October 1951

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**DAILY DIGEST**

**Office of Current Intelligence**

**CENTRAL INTELLIGENCE AGENCY**

**DIA, USAF and DOS review(s) completed.**

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SECTION 1 (SOVIET)

1. USSR. Prospects for Soviet industrial expansion considered poor: From a recently completed survey of current Soviet industrial expansion and its immediate production prospects, Embassy Moscow concludes that the rate of industrial expansion in the USSR for 1951-1955 will "taper off" well below the rate of the past five years. Main reasons for this anticipated decline are the strict limitations on Soviet labor reserves and plant capacity, and the government's failure to achieve a substantial increase in industrial efficiency and labor productivity.

Direct Embassy observations in the past year in Moscow and other areas attest to continuing low productivity of Soviet workers due to improper use and maintenance of machinery and backward work techniques. The USSR also continues to suffer from a shortage of labor.

The Embassy believes that an attempt to increase military and civilian output simultaneously would restrict the USSR to minor progress in each sphere. Any sizable increase in Soviet armaments and armed forces will therefore show an absolute decline in non-military output.

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Comment: There is other evidence supporting the Embassy's thesis that a tight economic situation continues in the USSR. The many Orbit attempts to circumvent export controls, increased Soviet demands for Satellite capital goods and appeals for more efficient exploitation of existing plant facilities seem to substantiate this opinion. However, if labor reserves have not yet been completely exhausted, some increase in productivity can be expected in the period 1951-1955. As output increases, some drop in the rate of increase is to be expected.

2. YUGOSLAVIA. Yugoslav views regarding the UN Military Subcommittee Report partially accepted: The UN Military Subcommittee Report has been revised to meet, in part, Yugoslav claims that the victim state in the event of future aggression should command the UN military operations conducted on its soil. As amended, the report states that the "victim state" may be designated as the Executive Military Authority if it is capable of directing the UN military effort without requiring substantial foreign assistance. More often, however, the Executive Military Authority would consist of a group of states of which the victim state would be one.

Comment: Although Yugoslav views concerning the role of the victim state are not completely satisfied by the amendments, Yugoslavia will probably support the subcommittee report, for in the event of an attack on Yugoslavia, the Yugoslav ambition to direct the Allied effort could be satisfied under the terms of the report.

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SECTION 2 (EASTERN)

1. INDIA. Prime Minister electioneering for continuance of secular state; Prime Minister Nehru's first election speech on behalf of the Congress Party in the forthcoming national elections declared all-out war on communism which, Nehru said, was India's greatest enemy.

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Comment: One of Nehru's basic contributions to India has been his battle for a secular state. If he retains the leadership of the Congress Party after the elections, he should be able successfully to continue his fight against the Hindu state advocated by many of his opponents.

2. INDIA. Hungarian Legation to be opened in New Delhi: The newly appointed Hungarian Charge d'Affaires, Karoly Szahra, will leave Hungary in mid-October to open a Legation in New Delhi.

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Comment: Heretofore, Hungary has been represented in India by a trade delegation.

3. BURMA. War Office complacent regarding Chinese Communist intentions: The Burma War Office believes that the Chinese Communists will not invade Burma because such action would arouse widespread anti-Chinese Communist resentment among the Burmese people, according to a Burmese staff officer.

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Comment: Such thinking, ignoring the threat of international communism, is common among most elements of the Burmese Government.

4.

The US Embassy in Rangoon reports that besides discussions concerning the Japanese peace and Nationalist troops in Burma, Prime Minister Thakin Nu's forthcoming visit with Nehru could be of "considerable political significance." The Embassy believes that Nu is one of the few Burmese leaders who are aware of the increasing impotency of the Burmese Government in the face of foreign and local Communist pressure, and that he may well be making this trip to seek Nehru's guidance and moral support in an effort to bolster his domestic position.

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Comment: No amount of moral support which Nehru may provide will reverse the current trend of growing Communist strength relative to the Burmese Government.

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6. INDOCHINA. US transfers arms to Associated States: A ceremony in Saigon on 1 October marked the transfer to the Indochinese states -- mostly to Vietnam -- of 55,000 rifles which recently arrived under the mutual defense assistance program. This is the first major delivery of US weapons which will contribute to the development of the Vietnamese Army. Failure of the French civil and military chiefs to attend the ceremony was due, in the opinion of the US Charge, to their uncertainty how to act in the absence of General De Lattre and to their disinclination to publicize the fact that the US had been called in to give small arms to the Vietnamese.

Comment: Delivery of these arms and the attendant publicity has been a matter of some embarrassment to the French authorities, who have permitted the press in Saigon to state, falsely, that delay in the development of the Vietnamese army was due to failure of the US to deliver promised equipment.

7. Viet Minh attack two French posts: Viet Minh forces have stepped up their action in western Tonkin (beginning with the assault on Nghia Lo on 29 September) by an attack on Binh Lu, located on one of the headwaters of the Black River. A parachute battalion has been dropped at Nghia Lo to supplement the two battalions of Thai troops stationed there. The commander of the area was quoted as stating that its loss was inevitable.

Comment: According to an Associated Press report, the Viet Minh has already seized the post of Binh Lu.

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Representative government in Vietnam reportedly postponed. A minor official of the Vietnamese Government states that the project which was initiated some months ago to establish a national assembly is now defunct and is, moreover, strictly taboo even as a topic of conversation in government administrative circles. [redacted]

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Comment: De-emphasis of this project has been evident for some time. Bao Dai recently told Charge Gullion that the assembly project was not being pressed because, as any "sensible, average" Vietnamese knew, such an assembly would be worse than useless as a result of Viet Minh infiltration. Bao Dai's argumentation is specious, since it must have applied as much when the project was initiated as it does now. It would appear that this is simply another case of Bao Dai's discovering -- to his satisfaction, at least -- that the most patriotic course is happily identical with the line of least resistance.

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10. [Redacted]

China's trade with Poland increases sharply: According to the Warsaw radio, trade between China and Poland for the first seven months of 1951 was three times greater than it was in 1950. For all of 1951, it is estimated that Sino-Polish trade will be six times greater than in 1950.

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Comment: The sharp increase in China's commerce with the Eastern European Satellites in 1951 has significantly affected the pattern of China's foreign trade. Traditionally, China's foreign trade has been mainly with the West; trade with Eastern Europe was negligible. So far in 1951, however, according to Peiping's claims, about one-fourth of China's foreign trade was with the Satellites. Together with the USSR, the Satellites now account for the bulk of China's foreign commerce.

[Redacted]

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12. KOREA. Communists refuse to move Kaesong talks: According to a 3 October release in Tokyo, the Communist leaders refuse to accept General Ridgway's proposal to move the cease-fire talks to a new location near Kaesong. The release states that Kaesong was "agreed upon by your side" as the site of the conferences and the US has had no cause to complain of Communist violations since the "accidental incident of 4 August" (when a Communist company marched through the city). The Communist leaders again offer to resume negotiations at Kaesong "immediately" with the continued proviso that the first order of business will be the setting up of "appropriate machinery" to ensure the neutralization of the Kaesong zone. [Redacted]

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Comment: While possibly of no significance, it should be noted that the Communists have not included a discussion "of previous incidents" in the first order of business of a resumed conference.

13. South Korean press sees more aggressive future UN policy: Most influential South Korean newspapers, as well as the ROK Government's Office of Public Information, have chosen to interpret General Bradley's visit to Japan and Korea as presaging "a more positive course" in the prosecution of the war. It is widely intimated that such a "course" would include breaking off the "endless and fruitless cease-fire talks" and concluding the war by military measures. [Redacted]

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Comment: Such interpretations are in line with recognized ROK antipathy to any cease-fire agreement which fails to unify Korea under ROK rule.

14. ROK Government to set up special legal department to deal with ROK military offenses against the civilian population: The ROK Minister of Defense announced the formation of a special office in the Ministry of Justice to deal with complaints "against army misdeeds." Explaining that this step was taken to "eradicate unlawful misdeeds committed...against civilians," the Minister urged the people to make full use of this new

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facility. The US Army Attache comments that this is "a timely measure if the army is to gain the respect and confidence of the Korean people."

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Comment: Like most Oriental armies, the forces of the ROK have unnecessarily requisitioned housing and materials and have mistreated civilians. The frequent scandals in which the military have been involved (the Kochang massacre and the National Defense Corps misappropriations) have given the military a bad name in South Korea. Insofar as these reflect on the Rhee regime, the army has been forced to undertake a strenuous campaign to clean up corruption and evil practices in the military.

15. JAPAN. Timetable for ratification of peace treaty: The Department of State has advised the US Political Adviser in Tokyo that Ceylon, France, Pakistan and the UK will ratify the Japanese Peace Treaty before the end of the year; Canada will ratify after Japan; the Netherlands after the US; Australia and New Zealand after the US and Japan; and the Philippines in February 1952. Indonesia's ratification is uncertain due to local factors.

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Comment: The peace treaty will not come into effect until ratified by the US, Japan, and a majority of the above nations. Japan expects to ratify the treaty late this month or early in November.

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SECTION 3 (WESTERN)

1. GERMANY. East German unity proposals intended to engender West German unrest: The Western belief that the purpose of East Germany's unity proposals is to stir up a revolt in West Germany was corroborated by East Germany's leading Communist theoretician, Fred Oelssner, on 29 September. In a speech to the Berlin Socialist Unity Party, Oelssner stated that the "urge for national unity will break through like elemental force, led especially by the working class, supported by the peasants and small bourgeoisie." He denounced Bonn's conditions for unification as making free elections impossible. He was careful, however, not to close the door on negotiations completely, remarking that "it is amply clear that far-reaching concessions will have to be made on both sides if agreement is to be obtained."

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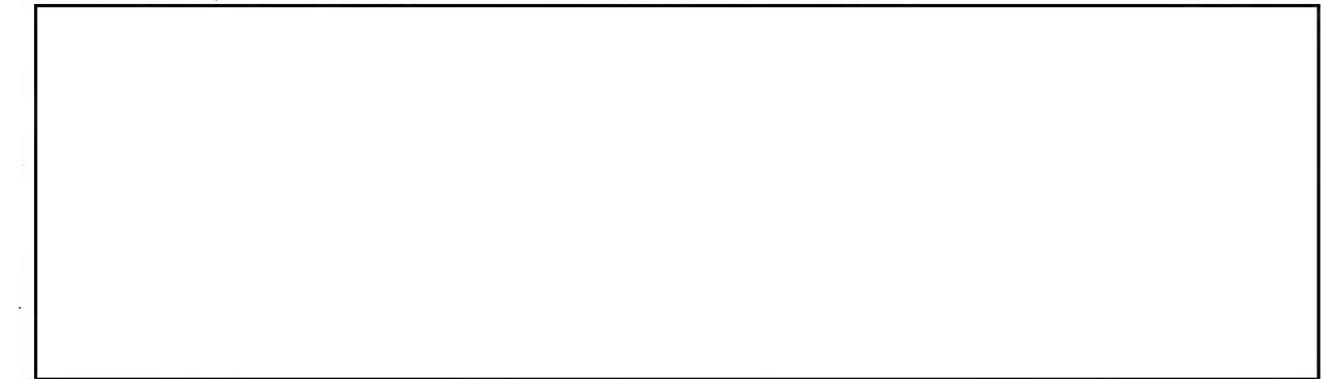
Comment: Most Western observers agree that East Germany will make certain additional small concessions to the Western viewpoint in an effort to embarrass Bonn, but apparently will not accept such important conditions as international supervision of German elections or guarantees of genuine freedom in East Germany. Meanwhile discussion of the unity question is interfering with the solution of such pressing West German problems as those dealing with contractual relations and European integration.

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3. ITALY. Italians end opposition to European Defense Forces: The highlight of the most recent session of the European Defense Forces conference was a report by the Italian delegate to the effect that the Italian Government was prepared to accept the interim report as a basis of discussion on most questions, and to drop a number of its previous reservations.

On the provisions for financing the European Defense Forces, which they have seriously opposed, the Italians are now willing to join with other powers in the transfer of some control over military budgets to the European Assembly.

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Comment: As previously believed, Italian opposition to European Defense Forces plans was intended to strengthen De Gasperi's bargaining position at Ottawa and Washington. Premier De Gasperi's Christian Democrats will probably be able to win Italian Parliamentary approval for financing European defense plans.

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6. Italy makes reprisals against Satellite diplomats in Rome: The Italian Foreign Ministry has announced that in retaliation for the restrictions on Italian diplomats in Satellite countries, Bulgarian, Rumanian, and Hungarian diplomats and members of their official families can circulate freely only in a zone of approximately sixty miles radius around Rome. The Hungarians and Rumanians will not be allowed to go outside the "free zone" around Rome unless they first obtain special permission. The Bulgarians will be required merely to notify the Italians of their intention to travel outside the permitted area, while their Minister will not be under any restrictions

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Comment: Diplomatic relations between Italy and the Satellites have been strained for some time. Retaliatory action against them for treatment accorded Italian diplomats and nationals has been under study, and has resulted in the recent closing of the Czechoslovak Consulate in Milan. The espionage trials of Italian nationals in Rumania, where stiff jail sentences were meted out to the Italians, probably prompted the restrictions mentioned above. The Italians are disturbed by these developments, for they do not wish to jeopardize the flow of raw materials which they receive from the Soviet bloc.

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7. Postponement of fall local elections confirmed: Persistent rumors that the south Italian local elections originally scheduled for this fall would probably be postponed until spring have been confirmed by a high official in Premier De Gasperi's Christian Democratic Party. The reason given is that the elections would conflict with the November census; but it is likely that the government is reluctant to face another test at the polls until there has been time available for the implementation of reforms.

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Comment: A member of the democratic Socialist Party had reportedly predicted three months ago that the government, as a result of its poor showing and an increase in leftist and rightist strength in the May-June elections, would not hold a fall series of local elections in south Italy, and that it might use the census as an excuse for postponement [redacted]

[redacted] It would be particularly embarrassing to the government should the local polls reveal continued Communist gains immediately prior to or concurrently with the meeting of the NATO deputies' council scheduled for Rome in November.

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9. ARGENTINA. New attempt to create "third position" continental labor organization: Four delegates from the Argentine General Confederation of Labor (CGT) and a delegation from the Uruguayan CGT are en route to Asuncion to hold a joint meeting with representatives of the Paraguayan CGT. One

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item on the agenda will be the creation of an anti-Communist, anti-imperialist continental labor organization. [redacted]

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Comment: Since March 1951 Argentina has been discussing with certain Mexican labor leaders the formation of a third inter-American labor organization to rival the Communist-dominated Confederation of Latin American Workers and the Inter-American regional organization of the ICFTU, which both countries have denounced as being dominated by "Yankee imperialists."

While Argentina has not yet been successful in establishing a "third position" hemisphere labor organization, its propaganda and efforts in this direction are prejudicial to the development of a strong anti-Communist hemisphere labor organization and adverse to the US interest in encouraging Latin American peoples to identify their interests completely with those of the West.

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SECTION 1 (SOVIET)

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2. JAPAN. Foreign Office requests US approval for visit of Japanese officials to Ryukyus: The Japanese Foreign Office has requested clearance for three of its officials to visit Okinawa and Amami-Oshima to discuss the meaning of the peace treaty with local residents and officials, according to the US Political Adviser in Tokyo. The Foreign Office explained that leftist elements are gaining influence in the local movement against the peace treaty. The Foreign Office wishes the delegation to complete its trip before the Diet session convenes on 10 October. GHQ strongly supports the Foreign Office request. [redacted]

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Comment: One, if not the major, objection of the Japanese Government's Diet opposition to the peace treaty is the failure of the document to clarify the status of future sovereignty over the Ryukyus. While leftists in the Ryukyus have been capitalizing on the desire to return to Japanese sovereignty, the Foreign Office actually may have designed the trip to demonstrate to the Japanese people the continuing relationship between the Ryukyus and Japan, thereby reducing Diet opposition to ratification of the treaty.

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4. AUSTRIA. Arrests in Czech spy case embarrass US information program: US Legation officials, concerned about the possible loss of US prestige, believe that public announcement of the reasons for the recent arrest of the Linz director of the US-sponsored Red-White-Red Radio Network has quieted widespread speculation that the director was suspected of maladministration. US Army officials in Austria released a statement on 3 October that Director Reischek was taken into custody, together with his wife and family, for interrogation, in connection with the arrest of his sister-in-law as a member of a Czech espionage group. The latter had been a frequent visitor at the director's home and admitted that the mail box at his residence was utilized in the spy-ring's activities. No connection between Director Reischek and the espionage group, however, has been established, and he and his family have now been released.

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Comment: US information in Austria suffered considerable embarrassment recently when the director of Radio Salzburg was dismissed after being charged with defending at a convention in Germany the continuing validity of the soldier's oath to Hitler. The episode was widely discussed in the Austrian press, which took vigorous exception to the views expressed by the Salzburg official.

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